

## Adani Power Rajasthan Limited

April 02, 2020

### Rating

Facilities	Amount (Rs. Crore)	Rating <sup>1</sup>	Rating Action
Short Term Bank Facilities ^	-	-	Revised to CARE A3+ (CE) [A Three Plus (Credit Enhancement)] from CARE A2+ (CE) [A Two Plus (Credit Enhancement)] and Withdrawn
<b>Total Facilities</b>	-		

Details of facilities in Annexure-1

^ The rating assigned is based on the credit enhancement in the form of 10% of the facility amount being kept as margin in the form of Fixed Deposit (FD) under lien with the lender; along with security of first and exclusive pledge of promoters' unencumbered shares of Adani Transmission Limited (ATL) such that the value of these shares provides a cover of at least 1.50 times of the facility amount (net of cash margin in the form of FD) throughout the tenor of the facility.

### Detailed Rationale & Key Rating Drivers

CARE has revised the outstanding rating assigned to the above bank facility of Adani Power Rajasthan Limited (APRL) from CARE A2+ (CE) [A Two Plus (Credit Enhancement)] to CARE A3+ (CE) [A Three Plus (Credit Enhancement)] and has simultaneously withdrawn the rating with immediate effect. The above action has been taken at the request of APRL and 'No Objection Certificate' received from the bank that has extended the facility rated by CARE.

The revision in the rating of the above bank facility of APRL is pursuant to change in analytical approach by CARE for rating loan against shares (LAS) transactions and should not be construed as deterioration in the structure or credit profile of the rated entity or credit profile of the listed entity whose shares are pledged.

The rating assigned to the above bank facility of APRL derives strength from the credit enhancement in the form of upfront creation of lien-marked FD for 10% of the outstanding letter of credit (LC) amount along with security of first and exclusive pledge of unencumbered shares of ATL held by the promoter group such that the aggregate value of these shares at all times is maintained at 1.50 times of the amount of outstanding bank facility (net of cash margin in the form of FD) along with strong credit profile of ATL whose shares are pledged. The rating further derives strength from availability of adequate unpledged shares of ATL with the promoters so as to enable it to maintain the aggregate collateral cover during the tenure of the bank facility along with presence of collateral and top up clause in the structure and low volatility in the share price of ATL vis-à-vis Sensex during the last one year (as reflected by low value of 'Beta' of ATL shares).

The rating is, however, constrained by the liquidity risk associated with the underlying shares as evidenced from high number of days that would be required to liquidate the pledged shares in order to meet total repayment obligation of the extant bank facility assuming average traded volume of the pledged shares, high price to earnings (PE) multiple of ATL as compared to the industry PE, moderate operating cash flows of APRL for its debt servicing and consequent possibility of liquidation of shares to meet the debt servicing obligations on the extant rated bank facility.

The rating is subject to maintenance of the aggregate collateral cover (by way of pledge of shares) as per the structure during the tenure of the bank facility and timely liquidation of shares in case of occurrence of an 'event of default' during the tenure of the bank facility.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Credit enhancement in the form of security of first and exclusive pledge of unencumbered shares of ATL held by the promoter group**

APRL has created FD under lien with the bank for upfront backing of 10% of the issued LC facility. Further, the bank facility is secured by way of first and exclusive pledge of unencumbered shares of ATL held by the promoter group, the market value of which should be equivalent to an amount that is sufficient to maintain a cover at all times of not less than 1.50 times of the outstanding amount of the facility (net of cash margin kept in the form of FD).

Further, the credit profile of ATL whose shares are pledged is strong. ATL is engaged in power transmission business and all its operational power transmission projects have exhibited track record of better than normative line availability.

#### Adani Transmission Limited (ATL)

ATL was incorporated in the year 2013 with a view to consolidate power transmission businesses of the Adani Group under one entity. Upon conclusion of business restructuring of the Adani Group in the year 2015, ATL got listed in July 2015 and the promoter group holds 74.92% of equity stake in ATL as on December 31, 2019. ATL through multiple subsidiaries holds 17 operational projects and 9 under implementation projects as on date (including the integrated

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

Mumbai-GTD business housed in Adani Electricity Mumbai Limited (AEML) and operational power transmission project acquired from KEC International Limited in February 2019). Operational projects of ATL have demonstrated very good operating performance. ATL has presence across a number of states like Gujarat, Maharashtra, Rajasthan, Haryana, Chhattisgarh, Madhya Pradesh, Jharkhand, Bihar and Uttar Pradesh. ATL is India's largest private sector transmission company with a cumulative transmission network reaching to around 14,738 circuit kms as on date out of which 11,477 circuit kms is operational and 3,261 ckm is at various stages of construction. During FY19, ATL reported total operating income of Rs.6,797 crore with a PAT of Rs.559 crore on a consolidated basis reflecting comfortable financial risk profile even after factoring equity commitment of ATL towards above-said under implementation projects under its subsidiaries. During 9MFY20, ATL reported total operating income of Rs.8,152 crore with a PAT of Rs.648 crore on a consolidated basis.

***High proportion of unencumbered shares of ATL held by the promoters along with collateral top-up mechanism which can enable it to maintain aggregate collateral cover***

As on December 31, 2019, the promoter group held 74.92% stake in ATL. Out of this, high proportion of shares held by the promoters are unencumbered i.e. 64.71% of promoter holding in ATL as on December 31, 2019 (which has increased from 56.07% unencumbered promoter holding in ATL as on September 30, 2019), which provides cushion in case of a fall in market price of the underlying shares.

Further, the structure for the bank facility also has collateral top-up mechanism whereby APRL shall be required to deliver additional collateral shares within a specified time limit in case closing price of the underlying shares declines by a specified limit. The trustee (i.e. Vistra ITCL (India) Limited) and the banker (i.e. Yes Bank Limited) have to monitor adherence and ensure compliance to the structure for this bank facility during its entire tenure.

***Low volatility in the share price of ATL vis-à-vis Sensex during the last one year***

Over the last one year, the share prices of ATL have shown less volatility as compared to Sensex leading to low value of 'Beta' of ATL share prices vis-à-vis Sensex.

**Key Rating Weaknesses**

***Liquidity risk associated with the underlying shares***

The number of days required to liquidate the pledged shares of ATL in order to meet total repayment obligation of the extant bank facility assuming average traded volume of the pledged shares is high which poses liquidity risk.

***High PE multiple of ATL as compared to the industry PE***

The PE multiple of ATL based on the consolidated financial results for last four trailing quarters as compared to the industry PE for the same period is high which reflects that the share prices of ATL are overvalued as compared to its earnings.

***Moderate operating cash flows of APRL for debt servicing of the rated bank facility***

On account of moderate operating cash flows in APRL, there exists a possibility of liquidation of the pledged shares to meet the debt servicing obligations on this rated bank facility.

**Analytical Approach**

CARE's criteria on rating instruments / bank facilities backed by pledge of shares of listed entities require that credit / liquidity enhancement provided is adequate to ensure that the credit protection offered to investors is commensurate with the rating on these instruments / bank facilities. The key parameters considered for this purpose are: security cover, credit rating of the underlying company whose shares are being pledged, pledged shares to daily average traded volume, proportion of unencumbered shares held by promoter to total issued shares, weighted average tenure of the rated instrument, volatility of the underlying stock vis-à-vis Sensex and PE of the underlying shares compared to industry.

**Applicable Criteria**

[Policy on Withdrawal of Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating of Loans by Investment Holding Companies \(Including Backed by Pledge of Shares\)](#)

[Rating Methodology - Private Power Producers](#)

[Rating Methodology - Infrastructure Sector Ratings \(ISR\)](#)

[Rating Methodology - Consolidation and Factoring Linkages in Ratings](#)

[Financial Ratios - Non-Financial Sector](#)

**About the Company**

Incorporated in January 2008, APRL was floated as a wholly owned subsidiary of Adani Power Limited (APL, rated CARE BBB-; Stable / CARE A3) to implement 1,320 MW (660 MW x 2 units) super-critical coal based thermal power generation

project at Kawai, Rajasthan. Unit-I (660 MW) and Unit-II (660 MW) achieved commercial operations on May 31, 2013 and December 31, 2013 respectively. APRL has entered in to long term power purchase agreements (PPAs) with power distribution companies of Rajasthan i.e. Ajmer Vidyut Vitran Nigam Limited (AVVNL), Jaipur Vidyut Vitran Nigam Limited (JVVNL) and Jodhpur Ajmer Vidyut Vitran Nigam Limited (JoVVNL) (collectively referred to as Rajasthan Discoms) for 1,200 MW. APRL's PPAs with Rajasthan Discoms have a two-part tariff structure i.e. fixed capacity charge upon maintaining billed plant availability factor (PAF) equal to or above normative level (i.e. 85%) and energy charges and inland transportation charges that are escalable for variation linked to Central Electricity Regulatory Commission (CERC) index.

<b>Brief Financials – APRL (Standalone) (Rs. Crore)</b>	<b>FY18 (A)</b>	<b>FY19 (A)</b>
Total Operating Income (Excl. Non-Cash Income)	2,080	4,008
PBILDT (Excl. Non-Cash Income)	168	1,195
PAT (Incl. Non-Cash Income)	(468)	80
Overall Gearing (times)	6.98	2.73
Interest Coverage (times)	0.20	1.36

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

#### **Annexure-1: Details of Facilities**

<b>Name of the Bank Facilities</b>	<b>Date of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Size of the Issue (Rs. Crore)</b>	<b>Rating assigned along with Rating Outlook</b>
Non-fund-based - ST-Letter of credit	-	-	-	0.00	Withdrawn

#### **Annexure-2: Rating History of last three years**

<b>Sr. No.</b>	<b>Name of the Bank Facilities</b>	<b>Current Ratings</b>			<b>Rating History</b>			
		<b>Type</b>	<b>Amount Outstanding (Rs. Crore)</b>	<b>Rating</b>	<b>Date(s) &amp; Rating(s) assigned in 2019-2020</b>	<b>Date(s) &amp; Rating(s) assigned in 2018-2019</b>	<b>Date(s) &amp; Rating(s) assigned in 2017-2018</b>	<b>Date(s) &amp; Rating(s) assigned in 2016-2017</b>
1.	Fund-based - LT-Term Loan	LT	4,002.49	CARE BBB; Stable	1)CARE BBB; Stable (05-Jul-19)	1)CARE BBB-; Stable (03-Oct-18)	1)CARE BBB-; Stable (28-Aug-17)	1)CARE BBB; Stable (16-Feb-17)
2.	Fund-based - LT-External Commercial Borrowings	LT	1,257.81	CARE BBB; Stable	1)CARE BBB; Stable (05-Jul-19)	1)CARE BBB-; Stable (03-Oct-18)	1)CARE BBB-; Stable (28-Aug-17)	1)CARE BBB; Stable (16-Feb-17)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	1,800.00	CARE BBB; Stable / CARE A3+	1)CARE BBB; Stable / CARE A3+ (05-Jul-19)	1)CARE BBB-; Stable / CARE A3 (03-Oct-18)	1)CARE BBB-; Stable / CARE A3 (28-Aug-17)	1)CARE BBB; Stable / CARE A3+ (16-Feb-17)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	460.00	CARE BBB; Stable / CARE A3+	1)CARE BBB; Stable / CARE A3+ (05-Jul-19)	1)CARE BBB-; Stable / CARE A3 (03-Oct-18)	1)CARE BBB-; Stable / CARE A3 (28-Aug-17)	1)CARE BBB; Stable / CARE A3+ (16-Feb-17)
5.	Non-fund-based - LT-Bank Guarantees	LT	160.00	CARE BBB; Stable	1)CARE BBB; Stable (05-Jul-19)	1)CARE BBB-; Stable (03-Oct-18)	1)CARE BBB-; Stable (28-Aug-17)	1)CARE BBB; Stable (16-Feb-17)
6.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	1)CARE A-(SO); Stable (19-Nov-18) 2)Provisional CARE A- (SO); Stable (03-Oct-18)	-	-

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
7.	Non-fund-based - ST-Letter of credit	ST	-	-	-	1) CARE A2+ (SO) (19-Mar-19) 2) Provisional CARE A2+ (SO) (01-Feb-19)	-	-

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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